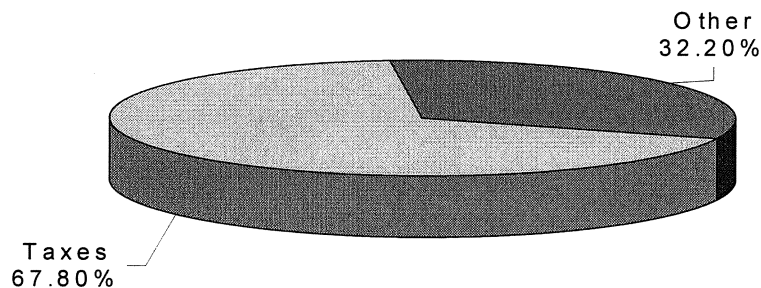


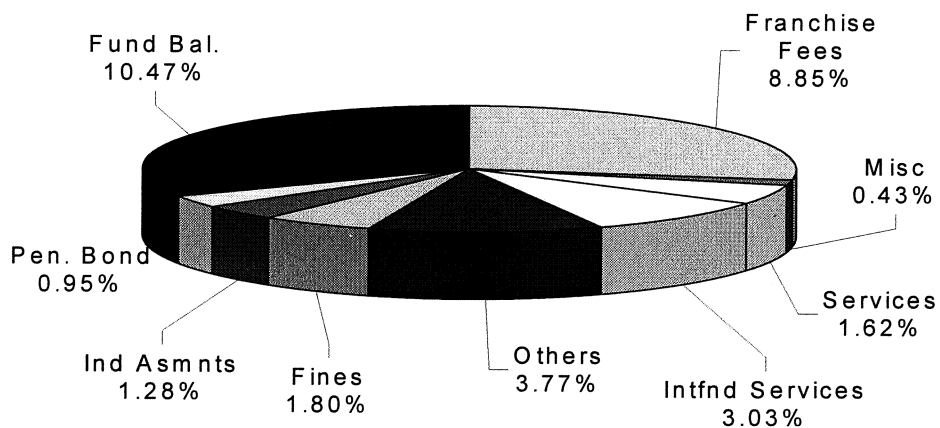
## GENERAL FUND RESOURCES SUMMARY

The General Fund is the City of Houston's largest operating fund. With total resources of \$2.11 billion budgeted in FY2010, this fund relies heavily on various forms of revenue to finance its operations. As illustrated below, approximately 68% percent of the total resources in the General Fund are from property and sales taxes.

### GENERAL FUND RESOURCES FY2010 BUDGET



### COMPOSITION OF OTHER (ABOVE)



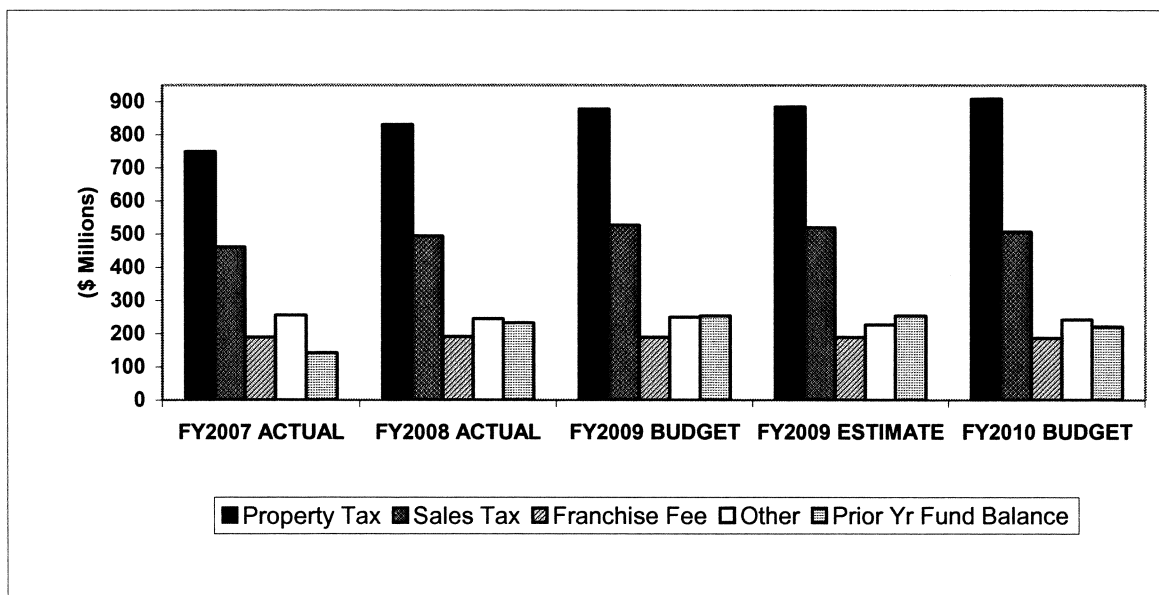
## FISCAL YEAR 2010 BUDGET

The composition of the FY2010 General Fund resources is listed below:

<b>RESOURCE CATEGORIES</b>	<b>RESOURCES FY2010 BUDGET*</b>	<b>% OF TOTAL BUDGET</b>
Taxes:		
Property Taxes	\$ 909,715	43.20%
Sales Taxes	507,300	24.09%
Other Taxes	10,783	0.51%
Franchise Fees	186,277	8.85%
Industrial Districts	26,880	1.28%
Intergovernmental	32,476	1.54%
Charges for Services	34,185	1.62%
Interfund Services	63,827	3.03%
Licenses and Permits	16,117	0.77%
Fines and Forfeits	37,888	1.80%
Interest on Investments	9,200	0.44%
Miscellaneous	9,069	0.43%
Total Revenues	1,843,717	87.56%
Pension Bond Proceeds	20,000	0.95%
Sale of Capital Assets	3,450	0.16%
Transfers In	17,950	0.85%
Beginning FY2010 Fund Balance	220,505	10.47%
<b>TOTAL RESOURCES</b>	<b>\$ 2,105,622</b>	<b>100.00%</b>
*Dollars in Thousands		

The graph below provides a four-year comparison of the City's resources in millions of dollars.

**RELATIONSHIP OF GENERAL FUND RESOURCES  
FY2007 THROUGH FY2010**



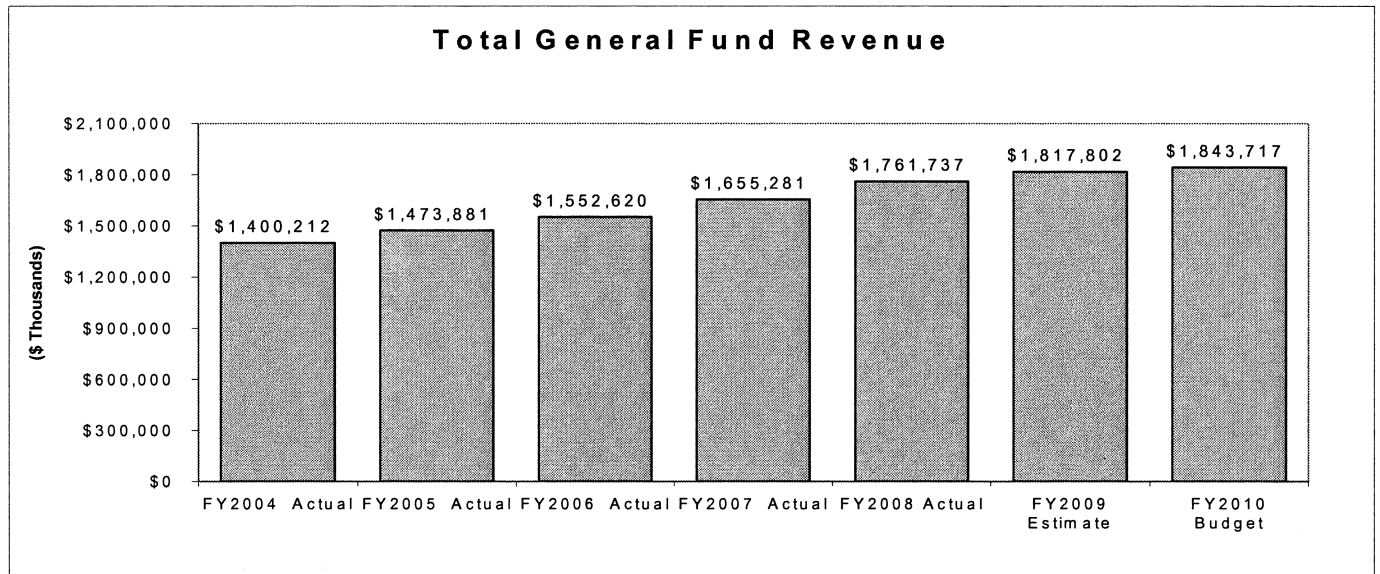


Table I below provides the FY2010 General Fund revenue estimate by categories. As shown, the total revenue is expected to be \$1.84 billion or \$25.92 million (1.43%) greater than the projected FY2009 revenue.

**Table I**

**FY2010 Revenue Estimates  
Compared with FY2009 Projections**

<u>Projected Revenue (\$ Thousands)</u>			
<u>Item</u>	<u>FY2009</u>	<u>FY2010</u>	<u>Increase</u>
General Property Taxes	885,082	909,715	24,633
Industrial Assessments	11,200	26,880	15,680
Sales Tax	517,300	507,300	(10,000)
Other Tax	10,400	10,783	383
Electric Franchise	99,298	96,985	(2,313)
Telephone Franchise	48,700	47,150	(1,550)
Gas Franchise	21,276	21,727	451
Other Franchise	20,010	20,415	405
Licenses and Permits	17,361	16,117	(1,244)
Intergovernmental	32,320	32,476	156
Charges for Services	35,832	34,185	(1,647)
Direct Interfund Services	48,283	48,296	13
Indirect Interfund Services	12,842	15,530	2,688
Municipal Courts Fines and Forfeitures	35,495	35,497	2
Other Fines and Forfeits	2,415	2,392	(23)
Interest	9,000	9,200	200
Miscellaneous/Other	10,988	9,069	(1,919)
<b>Total</b>	<b>1,817,802</b>	<b>1,843,717</b>	<b>25,915</b>

Table II provides the revenue estimate for each distinct revenue source that is expected to produce at least \$3 million in FY2010. The remainder of this document describes the projection logic that has been used for each of these items.

**Table II**

**Revenue Estimates for  
Revenue Sources over \$3 Million**

<b><u>Projected Revenue (\$ Thousands)</u></b>			
<b>Item</b>	<b>FY2009</b>	<b>FY2010</b>	<b>Increase</b>
Property Tax	885,082	909,715	24,633
Sales Tax	517,300	507,300	(10,000)
Industrial Assessments	11,200	26,880	15,680
Mixed Beverage Tax	10,180	10,576	396
Electric Franchise	99,298	96,985	(2,313)
Gas Franchise Fees	21,276	21,727	451
Telephone Franchise	48,700	47,150	(1,550)
Cable TV Franchise Fees	13,715	14,400	685
Solid Waste Hauler Franchise Fee	5,900	5,686	(214)
Licenses and Permits	17,361	16,117	(1,244)
METRO Funding	25,000	25,000	0
TIRZ Funding	4,050	4,820	770
Ambulance Fees	24,190	23,250	(940)
Other Charges for Services	11,641	10,935	(706)
Interfund Police Protection	20,167	20,477	310
Interfund Fire Protection	15,169	14,910	(259)
Other Direct Interfund	12,947	12,909	(38)
Indirect Cost Recovery	12,842	15,530	2,688
Moving Violations	22,106	22,113	7
Other Municipal Courts Fines and Forfeitures	13,389	13,384	(5)
Interest	9,000	9,200	200
Miscellaneous/Other	10,988	9,069	(1,919)
All Other Revenues	6,301	5,584	(717)
<b>Total</b>	<b>1,817,802</b>	<b>1,843,717</b>	<b>25,915</b>

**Taxes**

**Property Taxes**

General property taxes are ad valorem taxes levied on the assessed valuation of real and personal property. Taxable values for all real and personal property within the City, depending on their locations, are established by the Harris County Appraisal District (HCAD), Montgomery County Appraisal District (MCAD) or Fort Bend County Appraisal District (FBCAD), collectively County Appraisal District (CAD), based upon market values as of January 1. City Council approves exemptions such as homestead, 65 and over, disabled as well as Freeport exemptions and then sets a tax rate within the limitations set by the State law. The current tax rate for the City of Houston is 63.875 cents per \$100 of assessed valuation.

CAD notifies taxpayers and taxing jurisdictions of these values during April to May of each year. Taxpayers may protest these values or the exemption status of their properties. Hearings of appeals are conducted, and the Chief Appraiser of CAD certifies the City's tax roll once 90 percent of the roll is completed.

City Council then sets a tax rate, and bills are sent to taxpayers, usually by early November. Payment is due by January 31 of the next calendar year. Taxes not paid by that date are delinquent and are subject to late fees. Taxpayers who wish to appeal values set by CAD in the State court may do so if they pay taxes on the uncontested value.

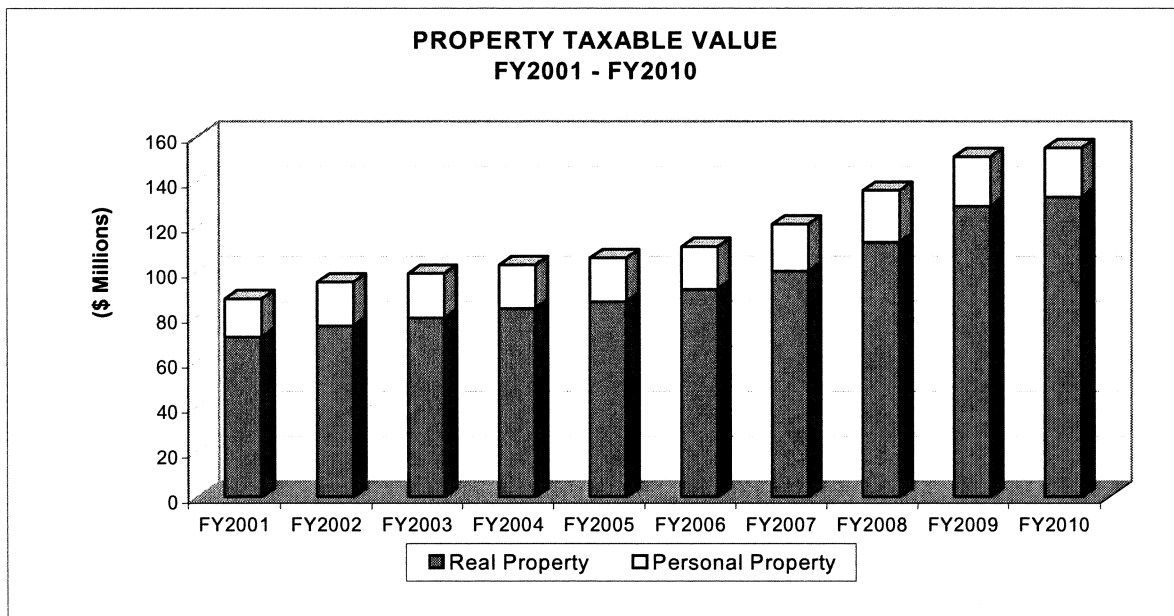
Occasionally, taxes are overpaid as the result of errors in appraisal or an overpayment by a taxpayer. The County Tax Office refunds such payments based upon the Texas Property Tax Code and documentation supplied by the taxpayers. Fluctuations in collections reflect changes in assessed property values, collection efforts, and tax rate changes.

The FY2010 property tax value estimate is derived from an HCAD projection provided to the City in April 2009. HCAD provides a range of values. The taxable value used was \$154.7 billion. This amount is a net of the senior/disabled exemption, which was \$70,862, the same as FY2009. This is projected to exempt as much as \$6.2 billion in taxable value from the tax rolls, reducing revenue by an estimated \$39 million in FY2010.

The estimated taxable value is then reduced by the estimated value of properties within the Tax Increment Reinvestment Zones (TIRZ), then adding back the base value of the TIRZ, reflecting the true value of revenues to the City from properties in the TIRZ. This net taxable value is estimated at \$143.4 billion.

The Finance Department applied an assumed 63.875 cent per \$100 value to this tax base, along with a 96% collection ratio and assumptions for prior year taxes collection of \$30.47 million, to arrive at a net revenue estimate of \$909.72 million. This revenue is approximately 2.8% higher than the estimated FY2009 revenue of \$885.08 million.

On the following page is a graph showing the ten-year history of property taxable values in Houston, with the \$154.7 billion estimate shown for FY2010.



**CITY OF HOUSTON APPRAISED VALUE  
(\$ Millions)**

<u>Fiscal Year</u>	<u>Tax Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Value</u>
2001	2000	70,859	16,956	87,815
2002	2001	75,691	19,556	95,247
2003	2002	79,249	19,846	99,096
2004	2003	83,790	19,402	103,192
2005	2004	86,433	19,467	105,900
2006	2005	91,954	19,320	111,274
2007	2006	96,588	20,179	116,767
2008	2007	112,866	23,209	136,075
2009	2008	129,366	21,530	150,897
2010	2009	132,669	22,076	154,748*

\*Harris County Appraisal District Estimates, as of April 2009

In November 2004, Proposition No. 1 was passed, amending the City Charter, to limit the annual increase in total ad valorem tax revenues. The increase is capped at the lower of the increase in CPI plus the growth in population, or 4.5% over the prior fiscal year. In addition, in November 2006, proposition H was passed to further increase the applicable revenue limitations by \$90 million.

The proposed budget includes Property Tax estimate revenues for \$909.72 million under the capped level of \$949.71 million, with the following assumptions.

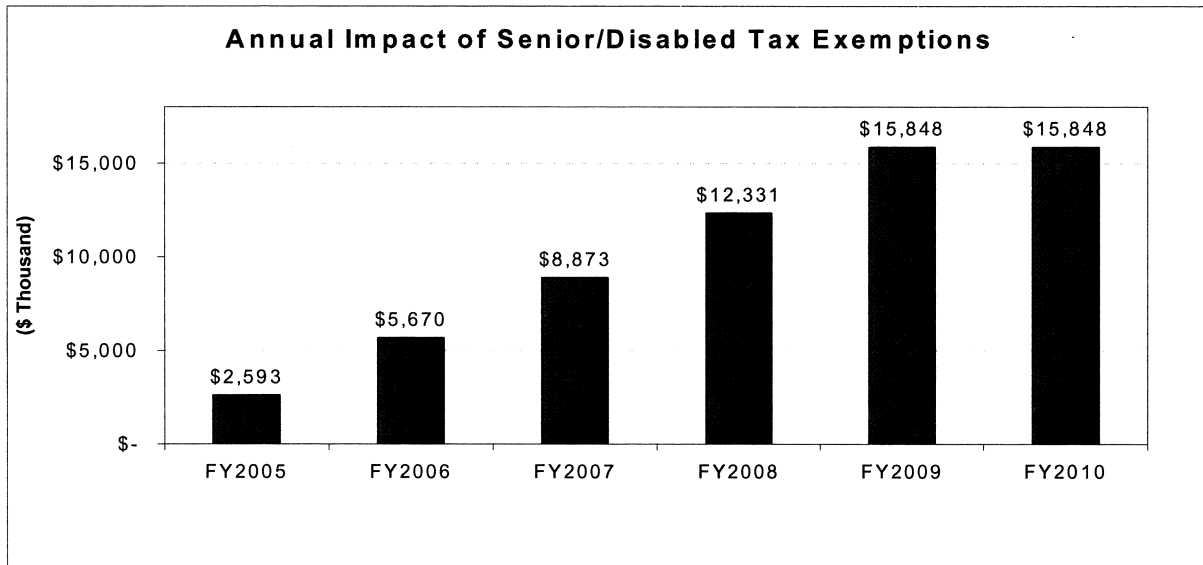
<u>Population</u>	<u>CPI (3)</u>
July 1, 2003 (1) 2,009,669	2003 163.7
July 1, 2004 (1) 2,012,626 + 0.1471%	2004 169.5 + 3.5431%
July 1, 2005 (1) 2,076,189 + 3.1582%	2005 175.6 + 3.5988%
July 1, 2006 (1) 2,144,491 + 3.2898%	2006 180.6 + 2.8474%
July 1, 2007 (1) 2,208,180 + 2.9699%	2007 183.8 + 1.7929%
July 1, 2008 (2) 2,244,615 + 1.6500%	2008 189.967 + 3.3339%

	<u>(\$ In Thousand)</u>
FY2005 Actual	\$671,294
Population Increase 2004	0.1471%
CPI Increase 2004	3.5431%
FY2006 CAP	\$696,066
Population Increase 2005	3.1582%
CPI Increase 2005	3.5988%
FY2007 CAP	\$743,100
Population Increase 2006	3.2898%
CPI Increase 2006	2.8474%
FY2008 CAP	\$788,705
Population Increase 2007	2.9699%
CPI Increase 2007	1.7929%
FY2009 CAP	\$826,269
Population Increase 2008	1.6500%
CPI Increase 2008	3.3339%
FY2009 CAP	\$867,450

FY2009 Estimates	\$885,082
FY2010 CAP (Based on 4.5% Increase from FY2009 Estimate)	\$924,911
Final FY2010 CAP (the Lower FY10 CAP Plus \$24.8 million) (4)	\$949,706

- (1) Population numbers based upon the U.S. Census Bureau estimate most recently published when deciding limits of each respective year's property tax revenue budget increase.
- (2) July 1, 2008 population is the City's estimate. The U.S. Census Bureau figures will be available in late June 2009.
- (3) CPI increase based on the change in the CPI-U for the Houston-Galveston-Brazoria, Texas as published by the Bureau of Labor Statistics, for the preceding calendar year.
- (4) In accordance to Proposition H, to increase the applicable revenue limitation by \$90 million. The remaining applicable revenue to be added for FY2010 is \$24.8 million.

In addition to the Proposition 1 limitation, the City is also required to provide a minimum annual increase of 10% in the senior and disabled homestead property tax exemptions through the 2008 tax year. Therefore, the FY2009 (Tax Year 2008) was the fourth and final year for this mandatory exemption increases. The graph below provides the estimated total benefit to seniors annually and in total for FY2005 to FY2010.



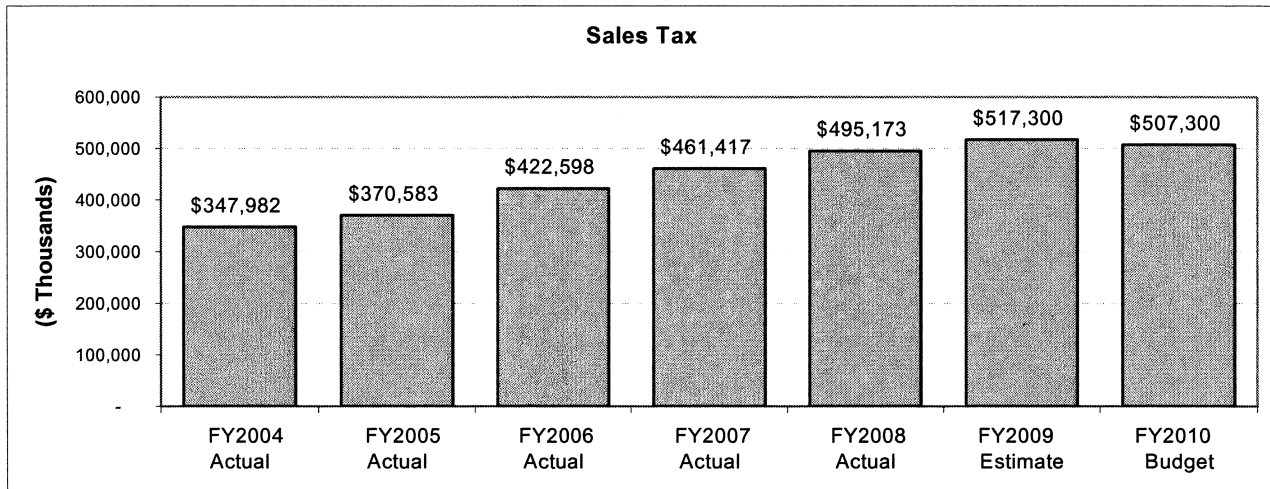
Fiscal Year	Tax Year	(Dollars)	(Thousand)
		Senior Exemption Property Value	Cumulative Annual Benefit to Seniors
2005	2004	\$48,400	\$2,593
2006	2005	\$53,240	\$5,670
2007	2006	\$58,564	\$8,873
2008	2007	\$64,420	\$12,331
2009	2008	\$70,862	\$15,848
2010	2009	\$70,862	\$15,848
Cumulative Total Benefit to Seniors			\$61,163

### Sales Tax

General sales and use taxes are imposed upon the sale or consumption of certain goods and services at the point of sale. In the City of Houston, a \$.0825 sales and use tax is applied for every dollar of sales. The Metropolitan Transit Authority (METRO) receives \$.01, and the State of Texas receives \$.0625. The State Comptroller remits a \$.01 share to the City, after withholding a 2% service charge.

Due to the past favorable economic conditions in Houston, sales tax has become an important factor in the City's overall revenue stream. However, due to its economically sensitive nature, sales tax revenue reacts quickly with changes in the economy, causing the City Council to retain an outside economist to make sales tax projection. In the last five years, energy prices rose rapidly, causing significant growth in energy related employment and business activity in Houston. Largely driven by business-to-business sales in this energy boom, the City's sales tax revenues grew from \$348 million in FY2004 to \$495 million in FY2008. In FY2009, however, energy prices dropped and the national economy faltered, causing underlying weakness in sales tax revenues. Hurricane Ike provided a boost to revenue through the high volume of construction materials sold to rebuild the Gulf Coast community after Ike, leading to \$517 million as the estimated sales tax revenue for FY2009. FY2010 revenue is expected to be \$10 million less as the effects of the rebuilding effort wane and area employment experiences a slight dip due to national economic factors and the sluggish energy economy.

The graph below provides a seven-year comparison of the City's Sales Tax revenue.



### Industrial District Assessments

The City of Houston has Industrial District Contract Agreements having a term of fifteen years with more than 100 companies that are located within the Houston Extra-Territorial Jurisdiction (ETJ). A contractually reduced ad valorem assessed valuation fee is calculated and billed annually to each of those companies in lieu of the property being annexed and subject to City of Houston property taxes. Industrial District Assessments are based on current year property values provided by HCAD. These are contractual revenues, with the current agreements expiring on May 31, 2012. The City expects to bill \$19.4 million in FY2009; however, collections are expected to be \$11.2 million because of the bankruptcy of a major chemical corporation in early 2009.

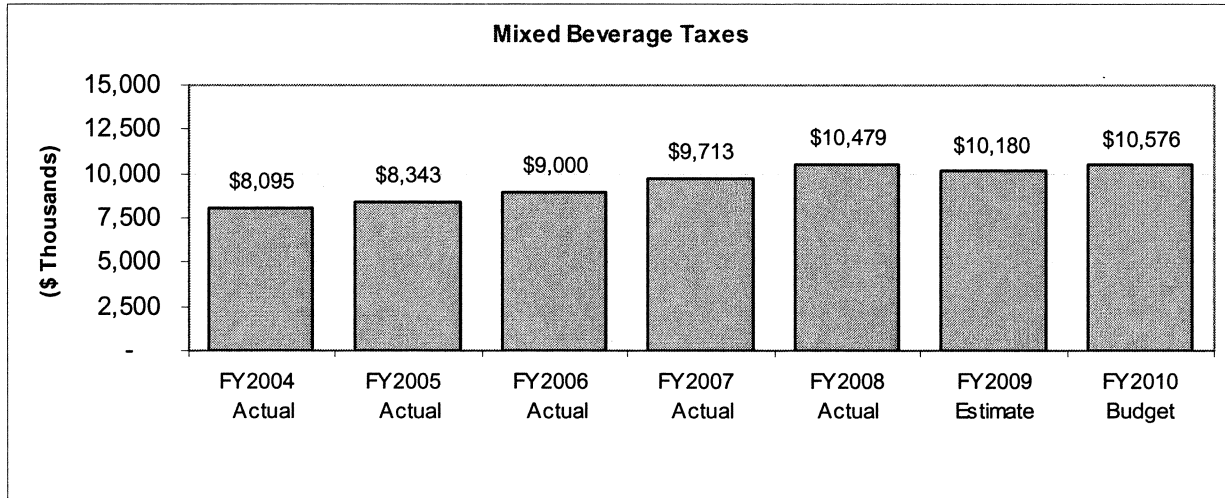
However, FY2010 revenues are estimated to be \$26.9 million because of the expected payment by the reorganized chemical corporation of FY2009 and FY2010 assessments in FY2010.



### Mixed Beverage Tax

By law, all mixed beverage and private club permit holders remit to the State Comptroller a 14% gross receipts tax on their mixed beverage sales each month. Following the end of each calendar quarter, 10.7143% of the tax paid is allocated to the county where each business is located. For any business located within an incorporated city, another 10.7143% of the tax paid is allocated to the city where it is located. The remaining tax is distributed to the State's General Revenue Fund. Mixed Beverage Tax allocation amounts are dependent upon the timing and accuracy of taxpayer's returns and payments, but generally represent taxes remitted to the Comptroller's Office during the calendar quarter immediately proceeding the month the allocation is distributed.

For the FY2010 projection, we are expecting a growth rate of 3.9% over the estimated FY2009 amount. The following graph shows the seven-year comparison of the City's Mixed Beverage Tax revenue.



### **Franchise Fees**

Franchise fees are paid by companies, entities, or persons for the privilege of using public property for private purposes. Franchise agreements have been granted to numerous utilities and other enterprises, either directly by the City of Houston or by the State of Texas, including CenterPoint Energy, AT&T, several cable television firms, and others.

Changes in franchise revenue depend on many factors including economic fluctuations, rate charges, customer usage, franchise agreement changes and legislative actions.

### Electric Franchise

Electric franchise fees are paid to the City for the right to conduct an electric light and power business and to use the City rights-of-way for that business.

There are two companies in Houston that pay electric franchise fees: CenterPoint Energy Houston Electric ("CenterPoint") and Entergy. CenterPoint pays approximately 99% of the electric franchise fees paid to the City, which represents approximately \$96.5 million per year.

Prior to electric deregulation, which became effective on January 1, 2002, electricity franchise payments were calculated as a percentage of the electric company's gross revenues from sales to customers located within the City limits. Under this payment formula, electric franchise fees to the City fluctuated, from \$80 million to as much as \$90 million per year.

From January 2002 through June 2005, franchise payments were no longer calculated based on a percentage of gross revenues, but instead were based on kilowatt hour consumption by customers within the City limits. During this period, electric franchise revenues dropped significantly, averaging \$75 million each year.

In July 2005, or the beginning of fiscal year 2006, the City and CenterPoint entered into a new franchise agreement for a term of 30 years. The new agreement establishes a base franchise fee to the City of approximately \$96 million per fiscal year, payable monthly, which is adjusted annually by a small adjustment factor based on kilowatt-hours delivered in the City.

The FY2009 electric franchise fee's estimate is \$97.89 million. The FY2010 electric franchise fee's estimate of \$95.58 million is approximately 2.34% less than the FY2009 estimate. Kilowatt-hour consumption for calendar year 2008 was down 2.25% from 2007 largely due to the electricity outages caused by Hurricane Ike.

The City of Houston exercises original jurisdiction over the rates, operations and services of these electric utilities for the Houston area.

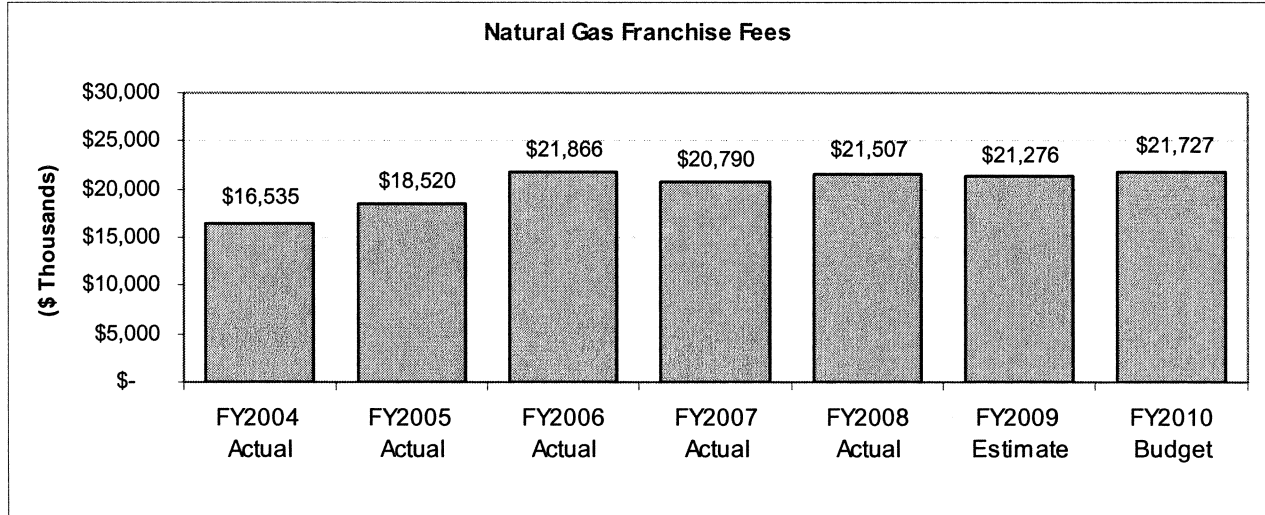
#### Natural Gas Franchise

Like electric franchise fees, natural gas franchise fees are paid by utilities that use the City rights-of-way for the transportation, delivery, sale and distribution of natural gas to customers in the City.

There is one company in Houston that pays natural gas franchise fees to the City of Houston: CenterPoint Energy Resources Corporation ("CenterPoint" – formerly Entex). These fees are paid monthly and are based on 5% of gross receipts on a rolling 3-year average.

The total estimate for FY2009 natural gas franchise fees from CenterPoint is approximately \$21.28 million. The FY2010 natural gas franchise fee estimate is \$21.73 million, an increase of 2.12% from FY2009.

The graph below provides a seven-year comparison of the City's natural gas franchise fee revenue.



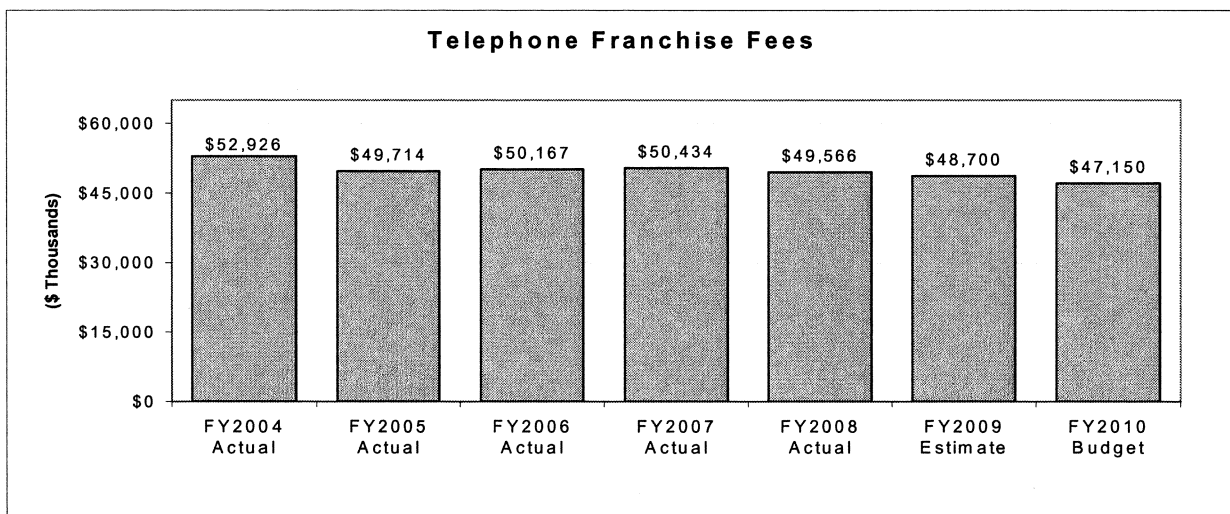
The City of Houston exercises original jurisdiction over the rates, operations and services of these natural gas utilities for the Houston area.

### Telephone Franchise

Since deregulation of this industry in 2000, the telephone franchise fee paid to municipalities in Texas has been determined by applying an "access line rate," assigned by the Public Utilities Commission of Texas (PUCT) and adjusted annually for inflation, to the number of access lines in the municipality reported quarterly by each Certificated Telecommunications Provider ("CTP") doing business in that municipality. In FY2010, the projected average number of access lines per quarter is 2.8 million; a decrease of 5.67% from FY2009 projected levels. The access line rates that will be in effect during the fiscal year are as follows: residential - \$1.71; non-residential - \$5.78; and point-to-point - \$16.41.

The FY2009 estimate for telephone franchise fee is \$48.55 million, exclusive of audit recoveries. The FY2010 estimate of \$47.15 million is a 2.88% decrease from FY2009's projection, and is reflective of the projected combined effect of the continued decrease in the number of access lines and the higher rates approved by the PUCT.

The following graph below provides a seven-year comparison of the City's telephone franchise fee revenue.



### Cable TV Franchise Fees

The City of Houston currently has four active cable franchises with the following cable companies: TVMAX of Houston, SuddenLink Communications, Phonoscope, and Northland. Pursuant to the terms of their franchise agreements, these companies pay franchise fees in the amount of 5% of their gross revenues from sales to Houston customers. In addition, there are two cable television/video service-providers operating in Houston under state-issued certificates of franchise authority: Comcast Cable and AT&T Uverse. Under the terms of the state franchise, these operators also pay the City of Houston 5% of their gross revenues from sales to Houston customers. The largest of either type of franchise is Comcast, which accounted for approximately 79.3% of the total cable franchise revenue received by the City in FY2008. The four remaining City of Houston cable franchises do not expire until after 2015.

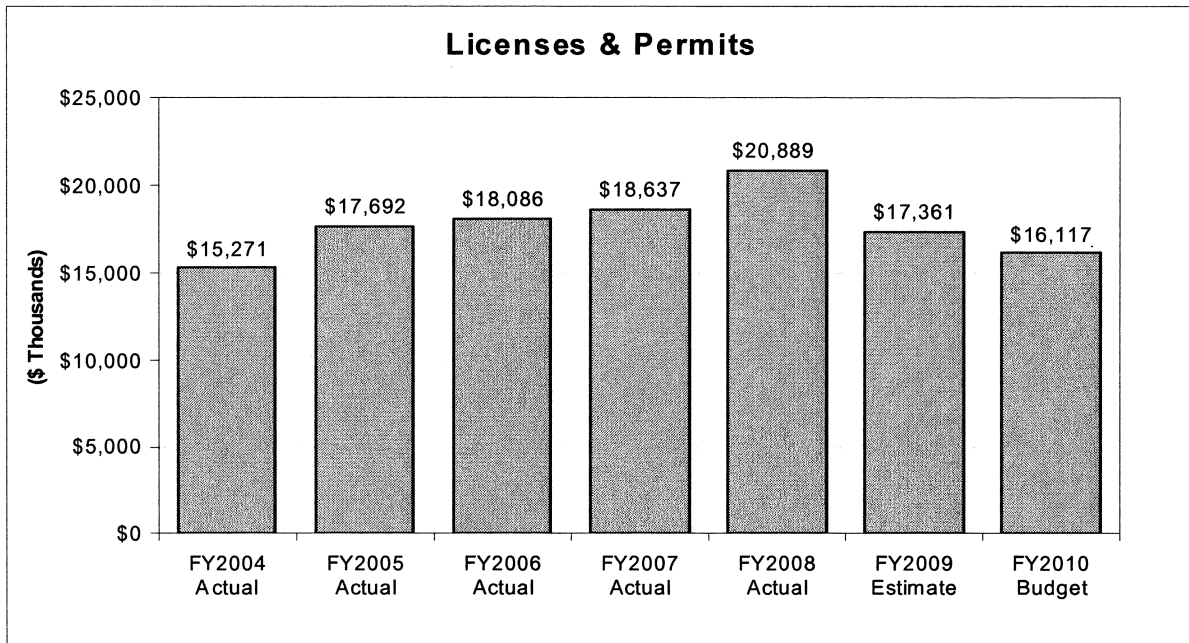
The FY2010 projection of \$14.4 million is approximately 4.99% higher than the FY2009 projection due to continued overall subscriber growth among cable/video service providers.

### Solid Waste Hauler Franchise Fees

Solid waste haulers pay fees to compensate the City for the use of City streets. Over 100 solid waste hauler franchises pay 4% of gross revenues from transporting commercial solid and industrial wastes that originate within the City limits. The FY2009 estimate for solid waste hauler franchise fees is \$5.9 million, exclusive of audit recoveries. The FY2010 estimate of \$5.69 million is approximately 3.63% lower than the FY2009 estimate and takes into consideration lower fuel prices (no fuel surcharge on invoices results in lower gross revenues) and the completion of Hurricane Ike clean-up/repair work.

### Licenses and Permits

The Licenses and Permits category includes such items as fire alarm, special fire, and many other permits. The FY2009 estimate is \$17.36 million, while the projection for FY2010 is \$16.12 million, a decrease of 7.17%. This decrease is due to a concentrated enforcement effort in FY2009 on permits for coin operated machines, and slight decline in a variety of other permit categories in FY2010.



### Ambulance Fees

Chapter 4 of the City Code provides for the establishment of, and guidelines for, a citywide ambulance service. The base and variable fee structure, as well as the Fire Department, the Finance Department and Administration and Regulatory Affairs Department (ARA) responsibilities are addressed under Section 4.13. ARA has been charged with the billing and collection services resulting from the transport data provided by the Fire Department. ARA has chosen to contract with a private vendor for these services. The City is currently in the second year of a five-year contract renewal with Affiliated Computer Services (ACS) State and Local Solutions, Inc. for billing and collection services. At the end of the five-year term, the City can again opt to renew the contract.

This contract also required the installation of new technology including laptop computer units with specialized patient software that prompts the medics to record vital data needed for required record keeping as well as proper billing documentation. Additionally, driver's license reader devices were installed to accurately record the patient's name and address. ACS is also required to establish business relationships with area hospitals to improve collaboration of patient data records under Chapter 241 of the Texas Health and Safety Code and applicable Federal Law. This was accomplished by implementing electronic HIPAA compliant database connectivity between area hospitals and ACS to share patient data including insurance information for billing and required record keeping purposes.

If the current trend in the transport volume continues into FY2010, transports will be down 4%, causing revenue to be \$940 thousand below FY2009, or \$ 23.25 million (net of collection fees).

Other Charges for Services

Other charges for services include miscellaneous copy fees, public safety report fees, vending machine concessions, vehicle storage, hazardous material response, and others. For FY2010, revenues of \$10.94 million are projected, a decrease of \$706 thousand from the FY2009 estimate of \$11.64 million.

Interfund Direct Charges

The General Fund charges the Houston Airport System for airport police service, which is the responsibility of Houston Police Department (HPD). The FY2010 projection of \$20.48 million is 1.54% higher than the FY2009 estimate of \$20.17 million, reflecting slight increases in police compensation and other costs.

The Aviation Enterprise Fund also pays for fire protection provided by the Fire Department to the Houston Airport System. The FY2010 projection of \$14.91 million reflects a decrease of approximately \$259 thousand over the FY2009 estimate; mainly due to compensation increase provided for in the 2009 meet and confer agreement which is offset by the pension contribution rate decrease.

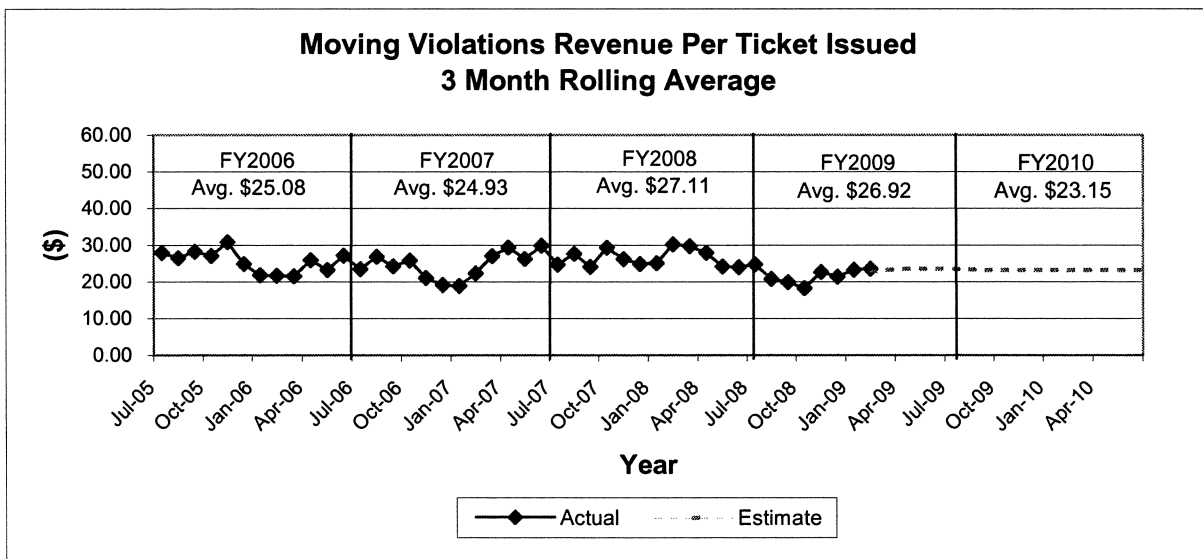
Payments received for direct services performed by the General Fund are recovered through the year. The FY2010 projection of \$12.91 million is slightly lower than the FY2009 estimate of \$12.95 million, which is mainly for concrete repair and bridge replacement services (\$8.26 million).

Indirect Cost Recovery

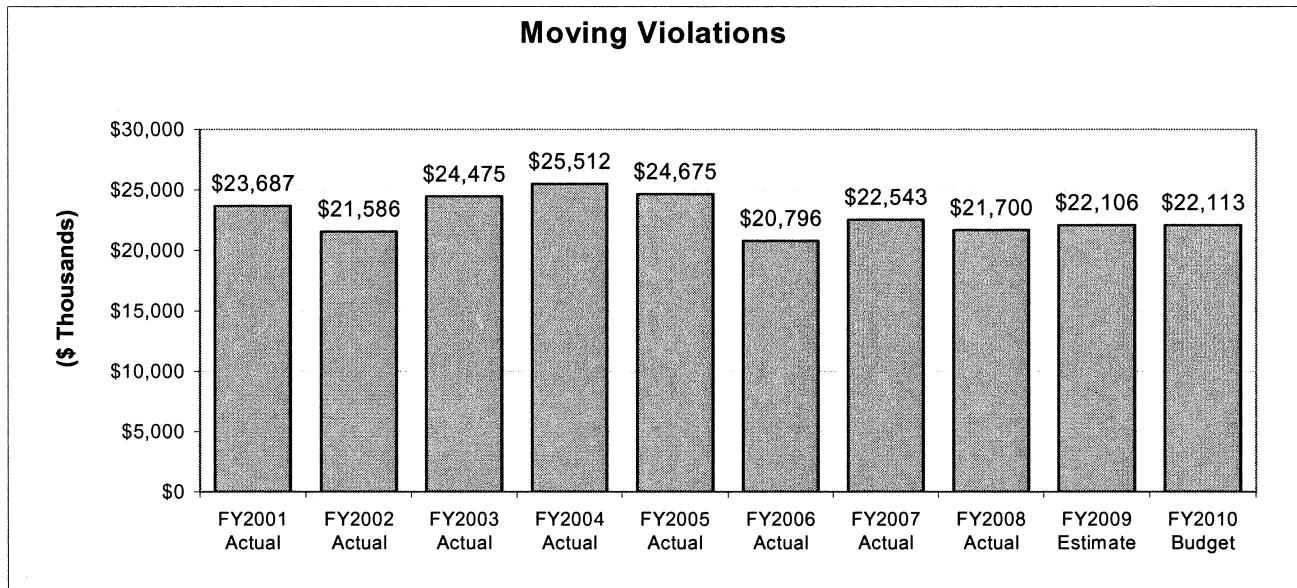
The General Fund provides citywide central support services and recovers the cost of these services through allocation of indirect costs. These amounts are determined through the preparation of an annual cost allocation plan, which distributes administrative overhead costs to General Fund operating departments and to other funds. For the FY2010, the proposed plan calls for cost recoveries totaling \$15.53 million, an increase of \$2.69 million in indirect interfund revenue from the FY2009 estimate of \$12.84 million.

Moving Violations

In FY2010, we expect 955 thousand tickets to be issued and 218 thousand tickets paid at an average of \$101.32 per ticket. Moving violations revenue in FY2010 is projected at \$22.1 million, which will remain constant with the FY2009 projection of \$22.1 million.



The graph below provides a ten-year comparison of the City's Moving Violations revenue.



#### Other Municipal Courts Fines and Forfeitures

Delinquent collection of Municipal Court Fines and Forfeitures is now largely privatized. It is projected to remain essentially constant from \$13.39 million to \$13.38 million for FY2010.

#### Interest

The City aggressively invests surplus balances and retains the interest earnings in the General Fund. The amount of such earnings depends on the balance available, the general level of interest rates, and the investment policies (e.g. tolerance for risk, need for liquidity) chosen. With the current economic condition, the FY2010 projection of \$9.2 million assumes lower interest rates.

#### Miscellaneous/Other

This revenue is being projected at \$10.99 million for FY2009 and \$9.07 million for FY2010.

#### All Other Revenues

Estimated revenues in remaining categories have been calculated using simple trend analysis, as well as operational and collection information from the collecting department. These revenues are estimated at \$5.58 million in FY2010.

A detailed listing of General Fund revenues by category are presented on the following pages, showing the FY2008 Actual, FY2009 Current Budget and Estimate, and the FY2010 Budget amounts.